



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66970; File No. SR-EDGX-2012-17)

May 11, 2012

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the EDGX Exchange, Inc. Fee Schedule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 1, 2012 the EDGX Exchange, Inc. (the "Exchange" or the "EDGX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its fees and rebates applicable to Members³ of the Exchange pursuant to EDGX Rule 15.1(a) and (c). All of the changes described herein are applicable to EDGX Members. The text of the proposed rule change is available on the Exchange's Internet website at <http://www.directedge.com>, at the Exchange's principal office, and at the Public Reference Room of the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A Member is any registered broker or dealer, or any person associated with a registered broker or dealer, that has been admitted to membership in the Exchange.

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

Currently, Flag N is yielded when an order removes liquidity from the EDGX book in Tapes B or C securities. In this case, a charge of \$0.0029 per share is assessed. In order to provide additional transparency to Members, the Exchange proposes to amend Flag N so that it only applies to orders that remove liquidity from the EDGX book in Tape C securities. The Exchange will continue to assess a charge of \$0.0029 per share for Members that utilize Flag N. The Exchange then proposes to add Flag BB for orders that remove liquidity from the EDGX book in Tape B securities. The Exchange proposes to assess a charge of \$0.0029 per share for Members that utilize Flag BB. In addition, similar to the footnotes appended to Flag N, the Exchange proposes to append Footnotes 1 and 12 to Flag BB. Therefore, Members will be eligible for the tiers provided for in Footnote 1 if the conditions outlined therein are satisfied. In addition, Members using Flag BB will be subject to the conditions of Footnote 12 because Flag BB is a removal flag. The Exchange also proposes to include Flag BB in the list of removal flags in Footnote 13 with regards to the Investor Tier. The Exchange notes that Flag N is currently in the list of removal flags for Footnotes 12 and 13.

The Exchange also proposes to amend the message-to-trade ratio in (iii) of Footnote 13 from less than 4:1 to less than 6:1. Therefore, Footnote 13, after the amendments described above are applied will read, “A Member can qualify for an Investor Tier and be provided a rebate of \$0.0030 per share if they meet the following criteria: (i) on a daily basis, measured monthly, posts an ADV of at least 8 million shares on EDGX where added flags are defined as B, HA, V, Y, MM, 3, or 4; (ii) have an “added liquidity” to “removed liquidity” ratio of at least 70% where added flags are defined as B, HA, V, Y, MM, 3, or 4 and removal flags are defined as BB, MT, N, W, PI, or 6; and (iii) have a message-to-trade ratio of less than 6:1.”

The Exchange also proposes to make a technical amendment to reduce the rebate from \$0.0004 per share to \$0.0003 per share for Flag RA. This change is a pass through of the EDGA reduction in rebate for removing liquidity, which was effective on April 1, 2012.⁴

The Exchange appended Footnote 11 to Flag 5 in its June 8, 2011 rule filing.⁵ The Exchange proposes to make a technical amendment to the first paragraph of Footnote 11 to identify Flag 5 in the description of the footnote as one of the flags that yields internalization. In the second paragraph of Footnote 11, the Exchange also proposes a technical amendment to specify that this paragraph only applies to Flags EA or ER.

⁴ See Securities Exchange Act Release No. 66763 (April 6, 2012), 77 FR 22008 (April 12, 2012) (SR-EDGA-2012-13).

⁵ See Securities Exchange Act Release No. 64632 (June 8, 2011), 76 FR 34792 (June 14, 2012) (SR-EDGX-2011-17)[sic]. In SR-EDGX-2011-17, the Exchange appended Footnote 11 to Flag 5 and the Exchange represented that the internalization fee is no more favorable than each prevailing maker/taker spread. However, the Exchange noted that if a Member receives a tiered rebate because the Member posts 10,000,000 shares or more of average daily volume to EDGX, then the Member would get the current rate of \$0.0001 per share per side for customer internalization.

The Exchange also proposes to make a technical amendment to the title of the EDGX Book Feed. The Exchange proposes to rename “EDGX Book Feed” to “EdgeBook Depth X” and to make conforming changes in the description on the fee schedule.

The Exchange proposes to implement these amendments to its fee schedule on May 1, 2012.

2. Basis

The Exchange believes that the proposed rule changes are consistent with the objectives of Section 6 of the Act,⁶ in general, and furthers the objectives of Section 6(b)(4),⁷ in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its members and other persons using its facilities.

In order to provide additional transparency to Members, the Exchange proposes to amend Flag N to apply to orders that remove liquidity from EDGX book in Tape C securities and to add Flag BB to orders that remove liquidity from the EDGX book in Tape B securities. The Exchange proposes to continue to assess a charge of \$0.0029 per share for Members that utilize Flag N and the Exchange proposes to assess a charge of \$0.0029 per share for Members that utilize Flag BB. The Exchange believes that utilizing Flag BB to identify Members that remove liquidity from the EDGX book in Tape B securities and utilizing Flag N to identify Members that remove liquidity from EDGX book in Tape C securities promotes market transparency and improves investor protection by adding additional transparency to the EDGX fee schedule. This proposed change more precisely delineates for Members whether they are removing liquidity in Tape B or Tape C securities. The proposed changes to Footnotes 12 and 13 to add Flag BB to the

⁶ 15 U.S.C. 78f.

⁷ 15 U.S.C. 78f(b)(4).

list of removal flags for the applicable tiers/rates outlined also provides additional transparency to Members. The Exchange also believes that the proposal is non-discriminatory because it applies uniformly to all Members.

The Exchange proposes to amend the message-to-trade ratio in (iii) of Footnote 13 from less than 4:1 to less than 6:1 because the Exchange believes that a message-to-trade ratio of less than 6:1 represents a more appropriate criterion for Members to qualify for a rebate of \$0.0030 per share associated with the Investor Tier. The Exchange believes the proposed message-to-trade ratio incentivizes Members to direct a high quality order flow to the Exchange because the Exchange believes that such high quality liquidity provisions will encourage price discovery and market transparency and improve investor protection by encouraging growth in liquidity. In addition, the Exchange also believes that the proposal is non-discriminatory because it applies uniformly to all Members.

The reduction in rebate on Flag RA is a pass-through of the reduction in rebate on EDGA's fee schedule for adding liquidity from \$0.0004 to \$0.0003, effective April 1, 2012.⁸ The Exchange believes the proposed rebate of \$0.0003 is equitable and reasonable as it represents a pass-through of the rebate for adding liquidity to the EDGA book. In addition, the Exchange also believes that the proposed pass-through of this rate is non-discriminatory because it applies uniformly to all Members.

The Exchange also notes that it operates in a highly-competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive. The proposed rule change reflects a competitive pricing structure designed to incent market participants to direct their order flow to the Exchange. The

⁸ See Securities Exchange Act Release No. 66763 (April 6, 2012), 77 FR 22008 (April 12, 2012) (SR-EDGA-2012-13).

Exchange believes that the proposed rates are equitable and non-discriminatory in that they apply uniformly to all Members. The Exchange believes the fees and credits remain competitive with those charged by other venues and therefore continue to be reasonable and equitably allocated to Members.

B. Self-Regulatory Organization's Statement on Burden on Competition

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3) of the Act⁹ and Rule 19b-4(f)(2)¹⁰ thereunder. At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
Send an e-mail to rule-comments@sec.gov. Please include File Number SR-EDGX-2012-17 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-EDGX-2012-17. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 19b-4(f)(2).

relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-EDGX-2012-17 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Kevin M. O'Neill
Deputy Secretary

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¹¹ 17 CFR 200.30-3(a)(12).